Current Challenges in California's K–12 Education Finance

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PACE
Policy Analysis for California Education

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Executive Summary

California has increased K–12 funding considerably during the past decade and now ranks among the higher spending states on education, although accounting for the state's greater labor costs brings its spending much closer to the national average. The Local Control Funding Formula (LCFF) also makes California's school finance system one of the nation's most progressive. Yet student performance remains mixed, and a growing number of districts face fiscal pressures. These conditions raise questions about both how much California spends and whether its finance system supports stable, effective investments in teaching and learning.

The structure of California's finance system contributes to this instability. Proposition 13 shifted much of the responsibility for school funding from local property taxes to the state General Fund, which relies heavily on volatile personal income tax revenue. Proposition 98 protects a minimum funding level but does not tie funding to the resources schools need to meet state goals. When revenues rise unexpectedly, policymakers often favor one-time or short-term categorical programs over sustained increases in flexible funding. This approach limits the state's long-term commitments but complicates planning for districts, whose largest expenses are ongoing.

California schools have lost students over the past 2 decades, with nearly two thirds of districts experiencing enrollment declines. Because LCFF funding depends largely on average daily attendance, many districts lose revenue as enrollment falls, even though their costs do not decline at the same rate.

District costs are also rising unevenly. Inflation-adjusted teacher salary schedules have remained relatively flat, even as housing and other costs of living have increased. Meanwhile, districts spend more on special education, pensions, health care, and retiree health benefits. These obligations consume resources that districts might otherwise use for current salaries, instructional improvement, or other priorities.

To address these challenges, California needs to answer three central questions:

- How much should California spend per pupil?
- How could funding become more predictable and more focused on a limited set of sustained, long-term priorities?
- How could educator compensation be reexamined to benefit educators and protect district finances?

PACE will convene researchers, policymakers, and practitioners to develop evidence-based options for addressing these questions and will share recommendations in a subsequent report.

Introduction

In 2026–27, California will spend almost $152 billion (Legislative Analyst's Office [LAO], 2026b) to educate approximately 5.7 million children (California Department of Finance, 2026) enrolled in transitional kindergarten through 12th grade (TK–12). This amounts to $21,148 per pupil (based on average daily attendance) from Proposition 98 funds and a total of $28,252 per pupil when considering all funding sources (LAO, 2026b). While the state has made substantial gains over the last decade in total funding for schools, it has also experienced an enrollment decline of approximately 500,000 students, even after the implementation of universal TK.

At the same time, student performance in California shows mixed results. Student scores in math and reading continue to fall below the U.S. average (Reardon, 2026). However, between 2003 and 2019 California's scores rose faster than the national average and have rebounded more quickly than many states' scores have since the COVID-19 pandemic. These overall trends mask important variation in academic performance across California's districts and schools. While some districts' student performance is more than three grade levels above the national average, student performance in others is more than three grade levels below the national average.

Against this backdrop, it is important to consider not only how much California spends on schools but also whether the state's finance system is structured to support high performance across districts. Although school finances are stronger than they have been in much of recent memory, California's education system faces several finance issues that, if left unaddressed, will hamper districts' ability to improve instruction during the coming years. This report describes the structural features shaping TK–12 education finance in California and outlines important issues that policymakers need to address in the near term.

Key Policies in California School Finance

Current issues in California school district finance are directly shaped by four key policies that affect each school district's total funding, sources of revenue, and how those revenues can be expended. Table 1 identifies these key policies.

Table 1. Policies Shaping California Education Finance

Policy (date)	Key policy elements
Proposition 13 (1978)	Constitutionally limited ad valorem property tax rates to 1 percent of assessed value and limited growth in assessed value to 2 percent a year unless a property is sold. This substantially reduced local property tax revenues and shifted greater responsibility for school funding to the state. A two thirds vote of each house is required to increase state revenues.
Proposition 98 (1988)	Established a constitutional minimum funding guarantee for K–12 schools and community colleges. The guarantee protects funding for local educational agencies (LEAs) but does not provide comparable constitutional funding for state-level education functions.
Propositions 30 (2012) and 55 (2016)	Increased state revenues for education through temporary tax increases. The sales tax increase enacted by Proposition 30 expired in 2016 while Proposition 55 extended the higher personal income tax rates on high-income earners through 2030.
Local Control Funding Formula/Assembly Bill (AB) 97 (2013)	• Student-based funding formula: Allocates funding based primarily on average daily attendance (ADA), providing a base grant for all students; supplemental grants for English learners, low-income students, and foster youth; and concentration grants for districts with high proportions of these students. • Exceptions to the formula: Districts whose local property tax revenues exceed their Local Control Funding Formula (LCFF) entitlement (known as basic aid districts) receive only minimum state aid and are funded primarily through local property taxes. "Necessary small schools" receive separate funding intended to support schools that are too small and geographically isolated to operate under the standard ADA-based formula.

Proposition 13's constitutional limitation on property taxes shifted responsibility for funding schools away from local property taxes and towards the state's General Fund (Kaplan & Mercado, 2026). Over the following decades, California's General Fund became increasingly dependent on personal income taxes, whose share of General Fund revenue rose from 30.7 percent in 1974–75 to 67.5 percent in 2024–25. Because personal income tax receipts—particularly those generated by high-income taxpayers—fluctuate substantially with economic conditions, California's education finance system has become more sensitive to economic cycles than systems that rely more heavily on local property taxes.

Proposition 98 requires that approximately 40 percent of the state's General Fund be used for K–14 education[1] (with the exact percentage based on which of three constitutional formulas apply in the context of a given budget year) (Kaplan & Mercado, 2026). Propositions 30 and 55 increased state revenues and helped California restore education funding following the Great Recession by raising personal income taxes on the state's highest income earners. While this tax is "progressive" (in that those with higher income pay a larger percentage of their income in taxes), it also increases the potential volatility of education funding. Consequently, periods of strong economic growth (and the associated increase in state income tax revenues) lead to large increases in education funding. Economic downturns have the opposite effect, although the three "tests" embedded in Proposition 98 help mitigate wide swings in school revenues over time. The LAO found no clear evidence that Proposition 98 substantially raised or lowered school funding relative to benchmarks based on enrollment and inflation, other state spending, and per-pupil spending nationwide (LAO, 2017).

Revenue increases in 2012 supported implementation of the LCFF (AB 97, 2013), which allocates base funding to school districts and directs additional resources to districts serving students with greater needs. LCFF increased overall funding levels and made funding more equitable across districts (Kaplan & Mercado, 2026; LAO, 2023).

The policies outlined in Table 1 set the basic structure of K–12 education finance in California. Under the current conditions, however, they create a paradox where state spending on K–12 education is at an all-time high (LAO, 2026c) but a growing number of districts are on the brink of fiscal crisis (California Department of Education, n.d.-b) and/or are experiencing labor-management challenges (California Teachers Association, 2025). As the reports and technical briefs included in Getting Down to Facts III show, districts are also facing several issues that pose fiscal challenges. The next section explains key issues around

- education revenues,
- declining enrollment,
- educator compensation (salary and benefits),
- rising costs (e.g., special education, benefits), and
- specific types of districts (e.g., basic aid districts, small districts).

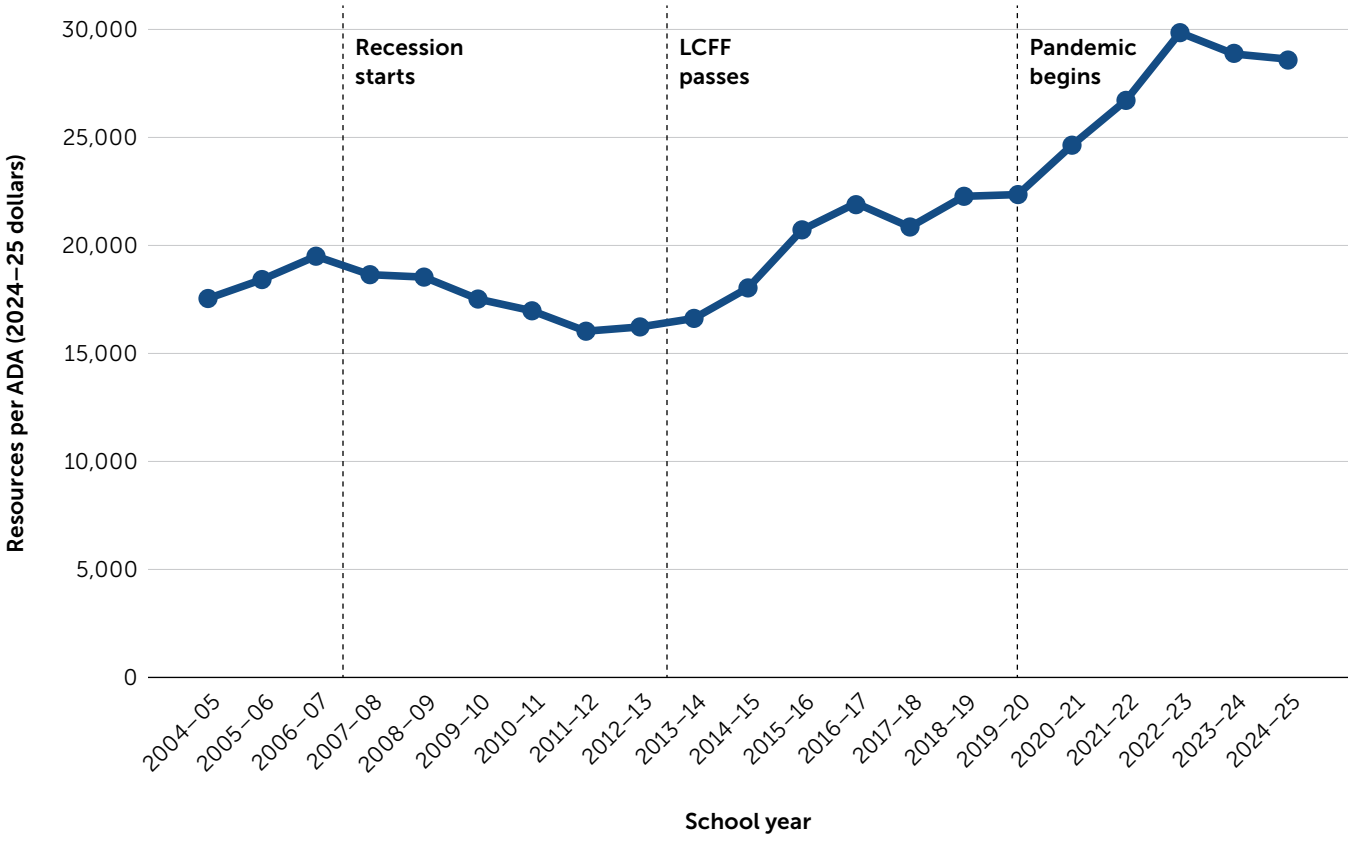
The report concludes by outlining the primary issues that California policymakers would need to resolve to improve fiscal stability, equity, and the long-term sustainability of K–12 education finance in California.

[1] We follow the LAO's use of the terms K–12 or K–14 when discussing Proposition 98's inclusion of community colleges as the umbrella term for the grade span that includes TK. TK is the first year of a 2-year kindergarten program and not a separate education segment for these purposes.

The state is spending more than ever on K–12 education.

Figure 1 shows that California's inflation-adjusted per-pupil revenue has increased substantially over the past 2 decades, driven by increased state revenues with the passage of LCFF, the influx of Elementary and Secondary School Emergency Relief funding after the COVID-19 pandemic, and declining enrollment. Since 2022–23, however, revenue per ADA has started to decline.

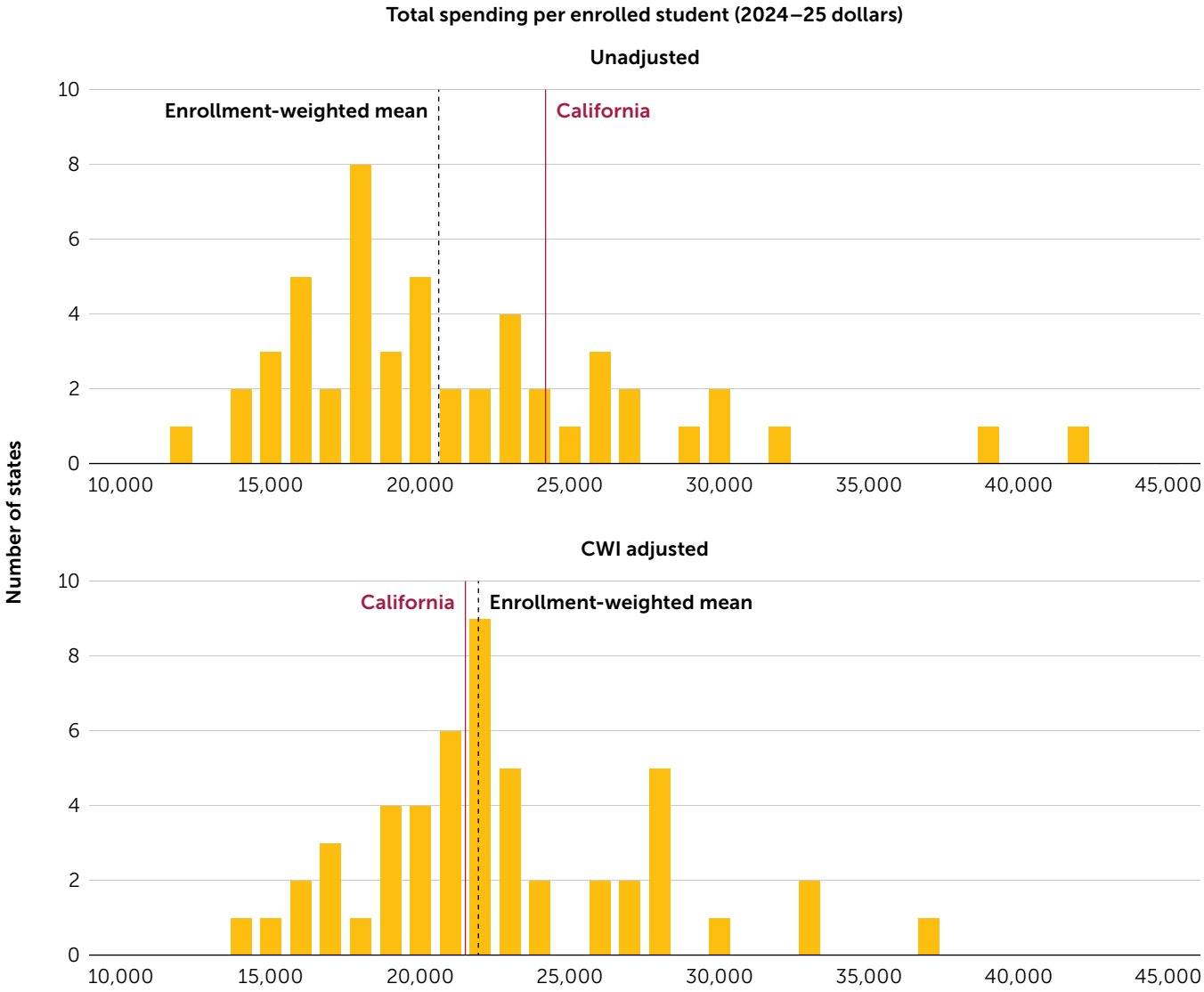
Figure 1. Average Revenue and Other Financing per ADA in California Districts From 2004–05 to 2024–25 (ADA-Weighted)



Note. ADA = average daily attendance; LCFF = Local Control Funding Formula. This graph is adapted with permission from P. Bruno, 2026, *District Dollars 3: Recent Patterns in California School District Finances, Trends in Teacher Compensation, and Within-District, Between-School Spending*, p. 24 (gettingdowntofacts.com/reports/district-dollars-3-recent-patterns-california-school-district-finances-trends-teacher).

Because of this rising revenue, in 2023–24 California school districts had higher average per-pupil expenditures than all but 10 states and Washington, DC; however, when spending is adjusted for higher labor costs using the Comparable Wage Index (CWI), it is close to the national average, as shown in Figure 2 (Bruno, 2026).

Figure 2. State Per-Pupil Spending in 2022–23



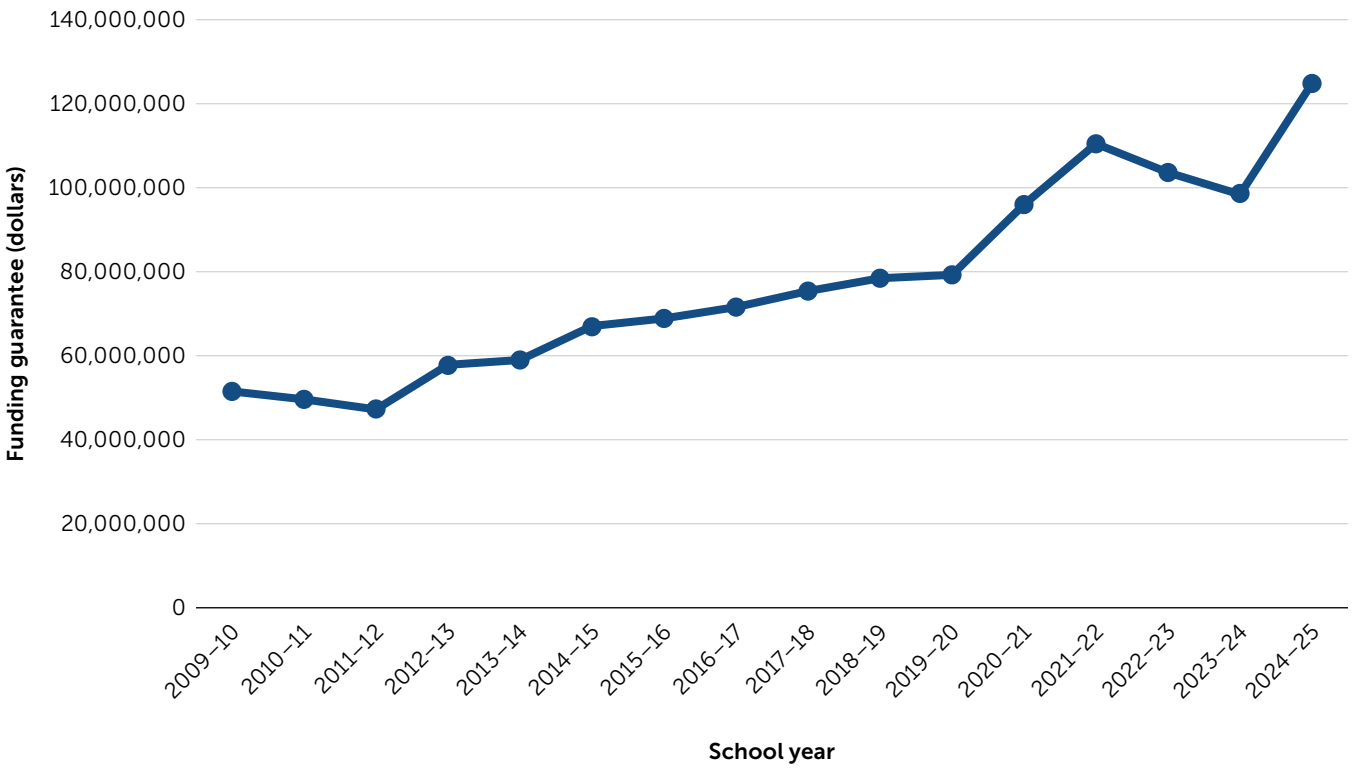
Note. CWI = Comparable Wage Index. Each state is an enrollment-weighted average of its districts. This graph is adapted with permission from P. Bruno, 2026, *District Dollars 3: Recent Patterns in California School District Finances, Trends in Teacher Compensation, and Within-District, Between-School Spending*, p. 64 (gettingdowntofacts.com/reports/district-dollars-3-recent-patterns-california-school-district-finances-trends-teacher).

California has also made substantial progress towards funding equity. Through LCFF, districts serving larger shares of low-income students, English learners, and foster youth receive additional funding (Bruno, 2026). As a result, California's school finance system is now among the most equitable in the nation, directing relatively more operating resources to districts serving students with greater needs (Farrie & Kim, 2025).

Personal income tax is the largest source of revenue for K–12 education, which creates an unintentional incentive for the legislature to fund short-term programs.

Proposition 98 guarantees that a minimum percentage of the state General Fund be allocated to K–14 education (including community colleges). Looking back to 2009–10 (when the California Department of Finance began posting records of the Proposition 98 guarantee), we see substantial year-to-year change in the amount of funding for K–12 education in the Proposition 98 funding guarantee (Figure 3). Even though Proposition 98 includes three different "tests" designed to mitigate annual fluctuations in the guaranteed amount, the year-to-year change ranged from a loss of 6.2 percent (from 2021–22 to 2022–23) to an increase of 26.9 percent (from 2023–24 to 2024–25). Since 2009–10, the amount of funding guaranteed by Proposition 98 increased year over year, declining in only 4 of those years due to a generally strong economy, aside from the Great Recession and the COVID-19 pandemic.. But if the economy dipped, the funding would as well, creating the possibility that the volatility inherent in the funding formula could lead to sharp decreases in funding for education.

Figure 3. Proposition 98 Funding Guarantee by Year, From 2009–10 to 2024–25



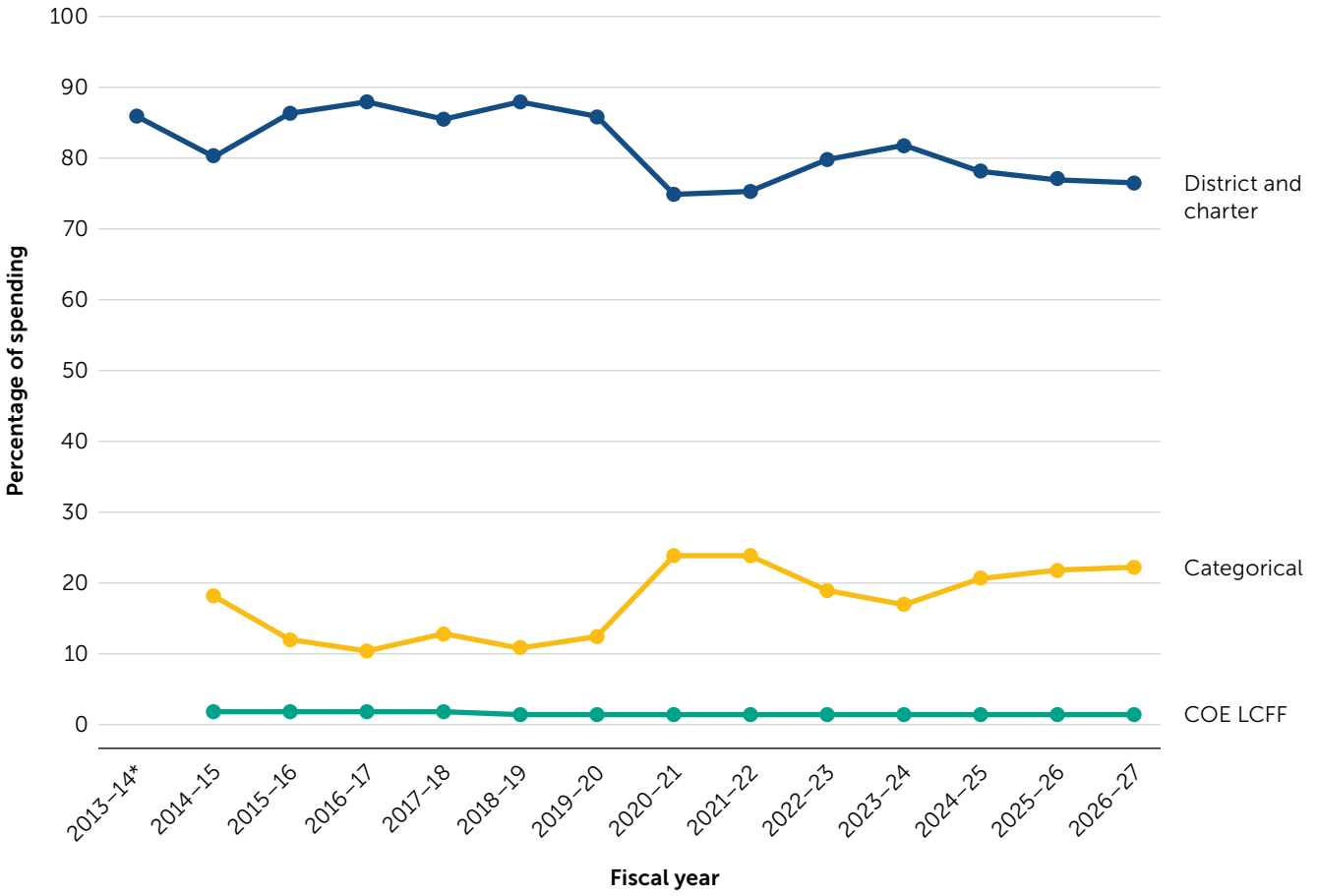
Note. Based on the authors' calculations using the "Total State and Local Proposition 98" amounts reported in the California Department of Finance's annual Proposition 98 certification factors for 2009–10 through 2024–25 (dof.ca.gov/Programs/Education); final certifications were used where available.

There are three important implications of Proposition 98. First, funding for K–12 education is not tied to any measure of the resources needed to ensure that all students receive an education that would prepare them for their future life as contributors to society and the workforce. Second, although Proposition 98 establishes a minimum rather than a ceiling for K–14 funding, it can operate as a de facto budget target. Once the state funds the guarantee, proposals for additional education spending compete with other priorities on the non–Proposition 98 side of the budget. Moreover, because funding above the guarantee can increase the base used to calculate future guarantees, policymakers may hesitate to appropriate more than the required amount. Proposition 98 therefore protects a large share of education funding while potentially making appropriations above that level more difficult (Kaplan & Saucedo, 2024; LAO, 2024).

Finally, because policymakers recognize that General Fund—and therefore K–14 education—revenue spikes may be temporary, they frequently direct a substantial portion of the additional funding towards one-time initiatives with categorical funds rather than ongoing increases to the LCFF base. While this approach is fiscally prudent at the state level, it can make long-term planning difficult for districts, whose largest costs, including staffing and employee benefits, are ongoing (Kaplan & Mercado, 2026).

One of the design goals for LCFF was to increase local discretion by replacing most categorical program funding with a more flexible funding formula (LAO, 2023). To see whether current allocations are meeting that goal, we analyzed K–12 spending under Proposition 98 for LCFF districts and charters, LCFF County Offices of Education (COEs), and categorical programs. For most of the initial years of LCFF, categorical funding made up less than 13 percent of Proposition 98 spending. With the pandemic, that trend changed, and since 2020–21 the proportion of Proposition 98 funding allocated to categorical programs has increased to more than 21 percent (Figure 4). The COE share of Proposition 98 funding remained relatively constant during this period, going from 1.15 percent to 1.70 percent, so we have not labeled those data (LAO, n.d., 2014, 2016). This represents a backsliding from one of the main goals of LCFF.

Figure 4. Share of Proposition 98 Spending for LCFF Districts and Charters, LCFF COEs, and Categorical Programs From 2013–14 to 2026–27



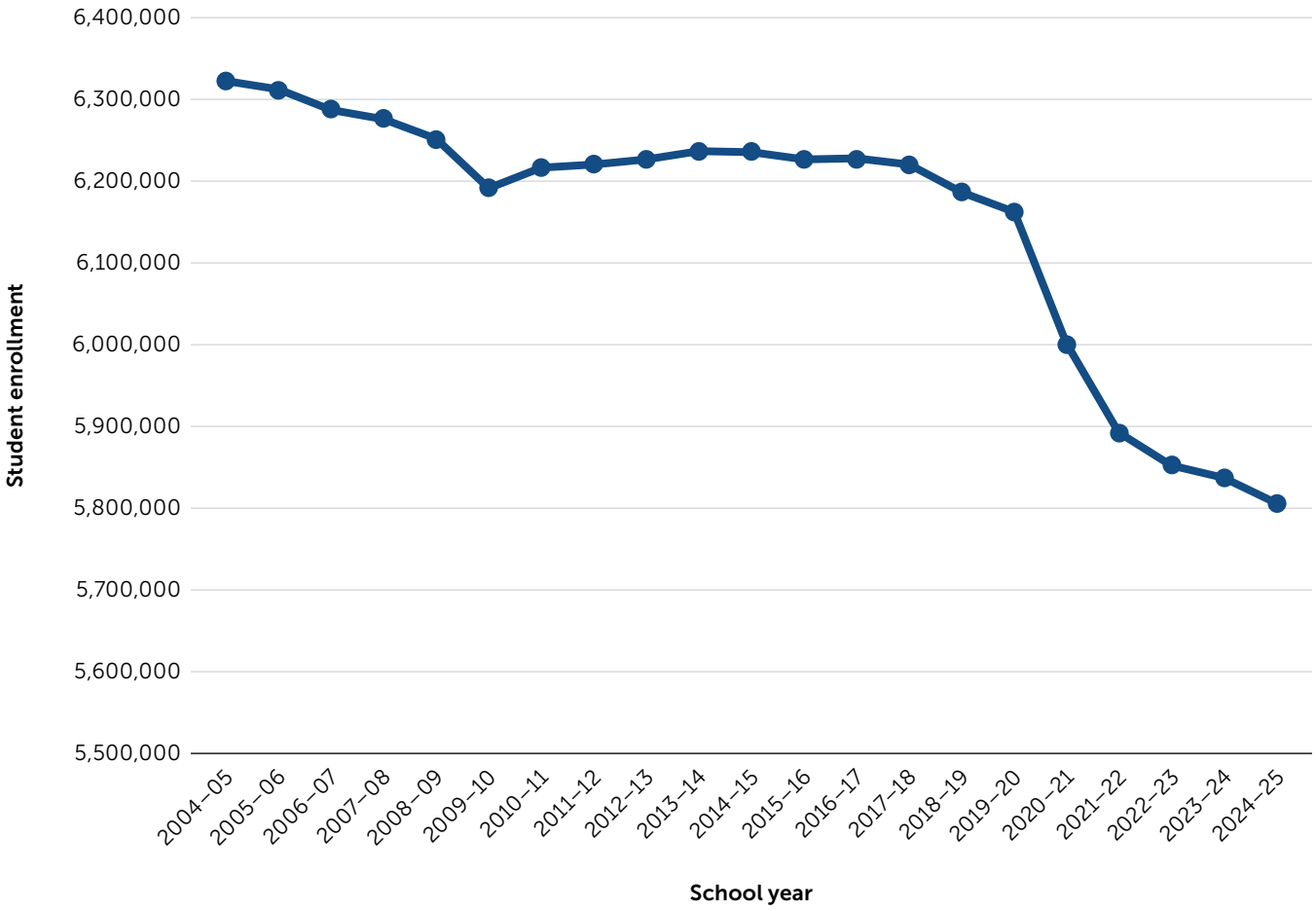
Note. LCFF = Local Control and Funding Formula; COE = County Office of Education. These analyses exclude "adjustments." Data are from the Legislative Analyst's Office, *The 2014–15 Budget: Proposition 98 Education Analysis* (lao.ca.gov/reports/2014/budget/prop98/proposition-98-budget-021414.pdf); EdBudget tables, 2016 (lao.ca.gov/reports/2016/3491/EdBudget-072016.pdf); and K–12 Proposition 98 funding by program, 2017–26 (lao.ca.gov/PolicyAreas/education/EdBudget). *Comparable data are not available for 2013–14, so we only report the LAO's figure that approximately 86 percent of K–12 Proposition 98 funding went through LCFF.

A recent LAO analysis of the revised K–12 Proposition 98 funding (based on the 2024–25 and 2025–26 revised budget and the 2026–27 enacted budget) shows an extensive and evolving list of approximately 70 categorical programs that consumed more than 20 percent of K–12 Proposition 98 funding—from $21 billion to almost $25 billion—for each of those 2 years. Furthermore, 30 of those programs were not funded all 3 years, highlighting the short-term nature of the state's categorical funding (LAO, 2026c).

Because of declining enrollment, many districts have decreasing revenue.

Over the past 20 years, California schools have lost about half a million students. Figure 5 shows overall enrollment trends in California (California Department of Finance, 2026).

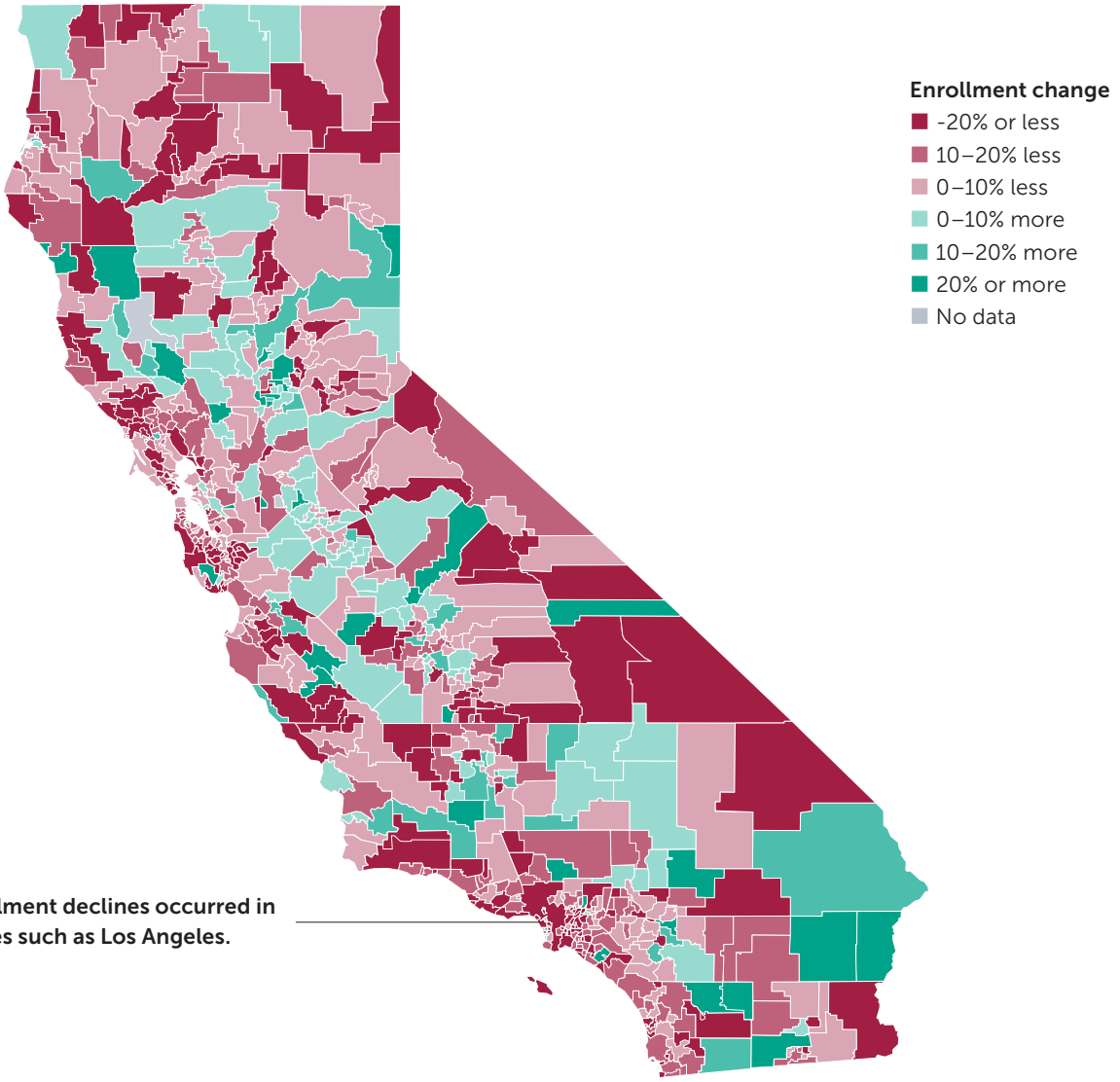
Figure 5. K–12 Student Enrollment in California Public Schools From 2004–05 to 2024–25



Note. Beginning in 2023–24, these data include counts for transitional kindergarten. Data are from the California Department of Finance's California public K–12 graded enrollment and high school graduate projections by county, 2025 series (dof.ca.gov/Forecasting/Demographics/public-k-12-graded-enrollment/).

Nearly two thirds of districts lost enrollment, with some of the largest declines occurring in high-cost coastal areas and rural communities as families moved away from these regions, either to more affordable areas within the state, including the Central Valley and Inland Empire, or out of California altogether (Figure 6).

Figure 6. Changes in District Enrollment From 2014–15 to 2024–25



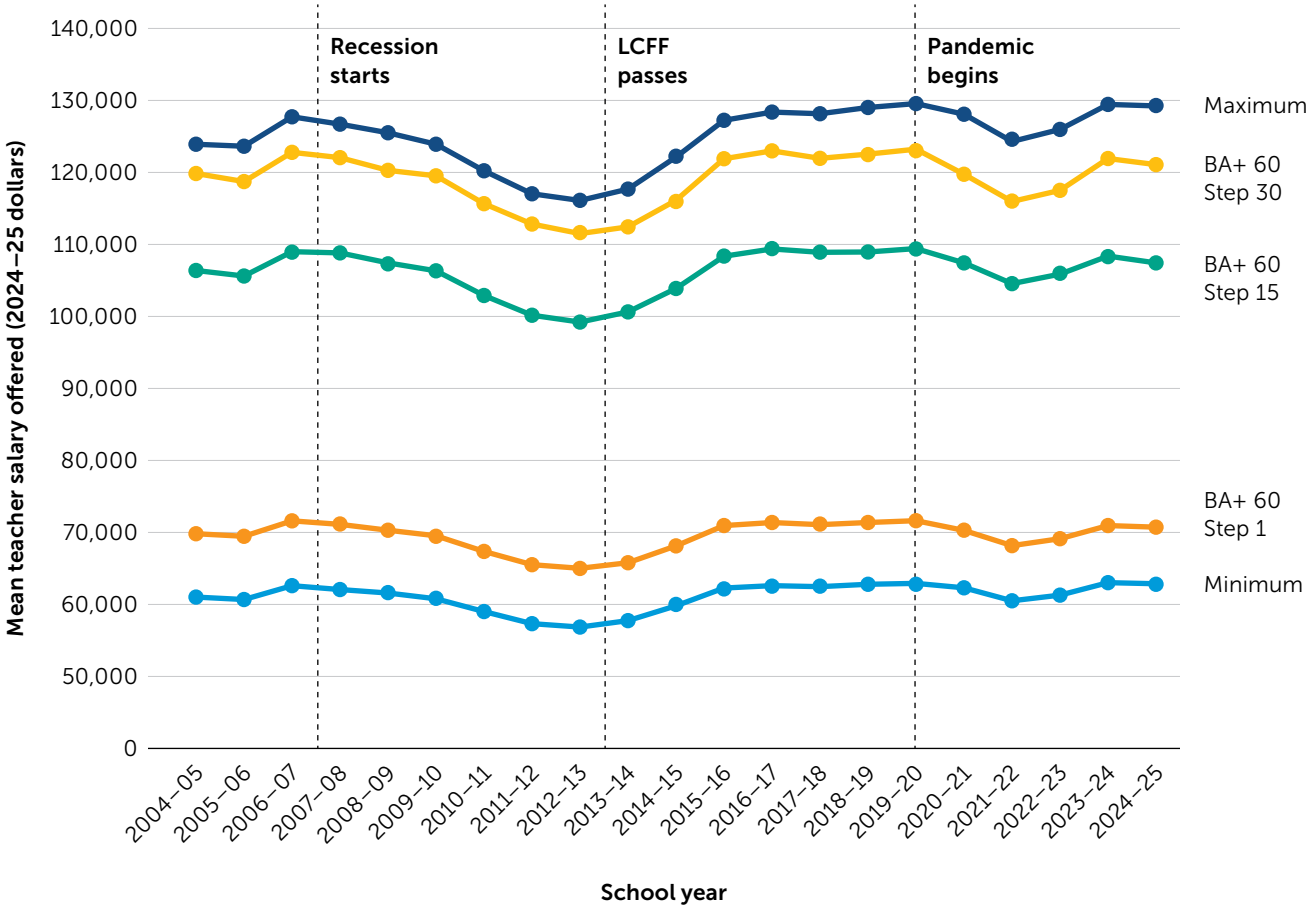
Note. This graph is adapted with permission from B. Deng and L. Hill, 2026, *California's K–12 Students* (ppic.org/publication/californias-k-12-students/). Copyright 2026 by the Public Policy Institute of California.

Because LCFF calculates the amount of funding districts receive based on ADA, declining enrollment affects district revenue (except in basic aid districts, discussed later in this report). During and immediately after the pandemic, temporary federal COVID-relief funds, hold harmless funding policies based on prior-year attendance, and strong state revenues helped cushion districts from the fiscal effects of declining enrollment. As those temporary supports expire, some districts face what has been described as a "fiscal cliff" (Kaplan & Mercado, 2026). Thus, enrollment trends, which are largely outside of district control, pose a range of fiscal challenges for California districts despite growing total revenue for schools.

Teacher salaries have been stagnant over the past 20 years.

The 2025–26 school year was notable for teacher labor action, which frequently included calls for sometimes substantial increases to teacher salaries. For example, the California Teachers Association's coordinated "We Can't Wait" campaign involved 32 districts serving roughly one million students and centered concerns about educator salaries (California Teachers Association, 2025). After adjusting for inflation, the salaries offered to teachers for comparable placement on the average district salary schedule have held relatively constant for the past 2 decades. Figure 7 shows the average of what districts pay for teacher salaries at five levels of the salary schedule, ranging from novice teachers (Step 1 of the salary schedule) to the average district maximum salary (Bruno, 2026).

Figure 7. Mean Salaries on California District Salary Schedules



Note. LCFF = Local Control Funding Formula. Weighted by district full-time equivalent. This graph is adapted with permission from P. Bruno, 2026, *District Dollars 3: Recent Patterns in California School District Finances, Trends in Teacher Compensation, and Within-District, Between-School Spending*, p. 45. (gettingdowntofacts.com/reports/district-dollars-3-recent-patterns-california-school-district-finances-trends-teacher).

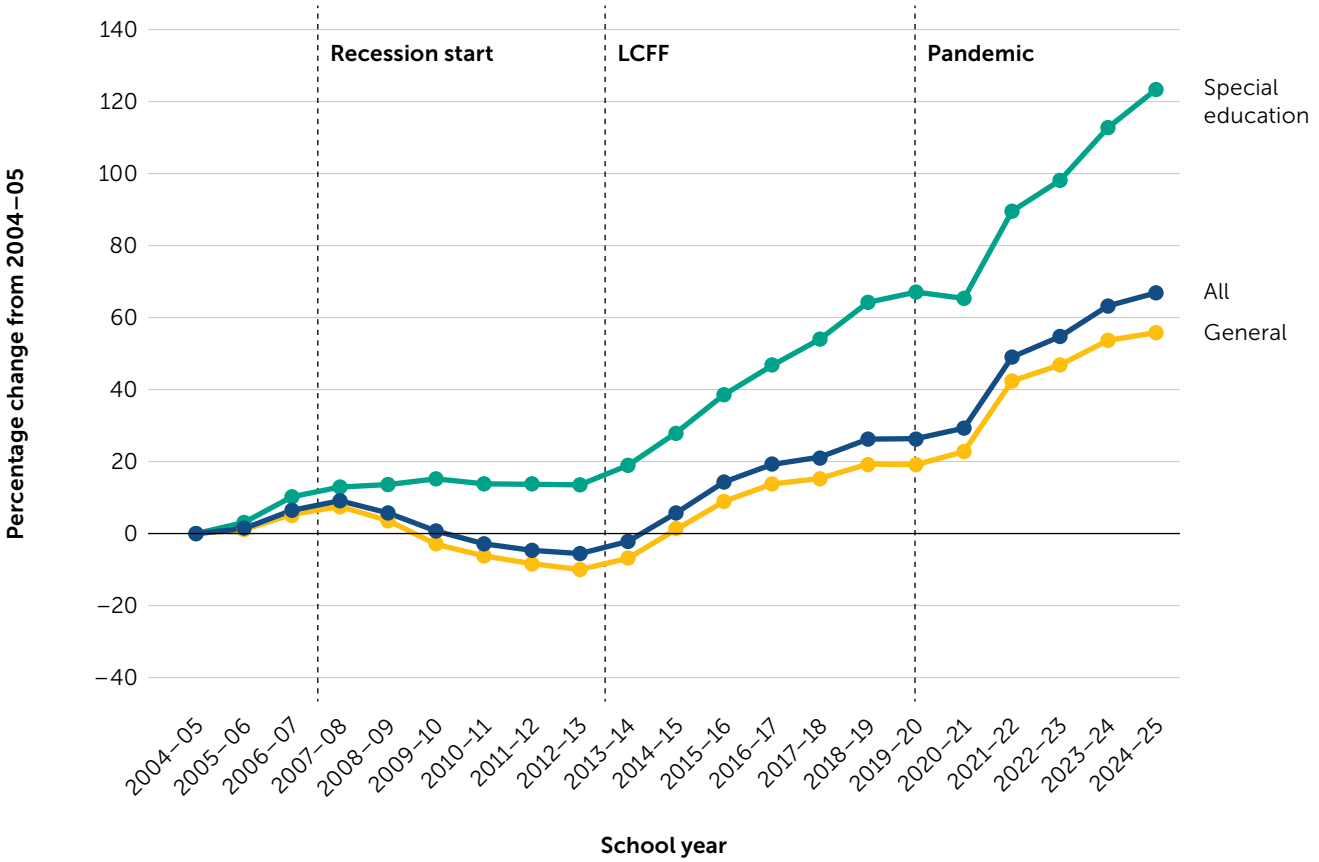
Over approximately the same period, the inflation-adjusted national average for salary and wage workers increased 11 percent. Even though teacher salary schedules saw almost no real increases, district spending per pupil on all salary categories rose in California during this period (up 22 percent from 2004–25 to 2024–25 for teachers, up 63 percent for administrators, and up 121 percent for other certificated staff). These data suggest that the increases in district spending on teacher salaries are driven by factors like higher staffing levels, an increase in the average years of experience and education for teachers, and more "off-schedule" pay (e.g., one-time bonuses, pay for tutoring outside the contract day), not by salary schedule increases (Bruno, 2026).

Costs are going up for districts, and some types of spending are rising dramatically.

This section focuses on categories of district spending that are increasing more steeply than overall expenditures. It is not intended to be a comprehensive review of district finances (for such a review, see Bruno, 2026; Kaplan & Mercado, 2026). All figures are adjusted for inflation.

Special education. Bruno (2026) analyzed district expenditure data reported through California's Standardized Account Code Structure to examine how districts allocate spending across educational purposes. Among student expenditures, special education spending has grown much faster than other categories, increasing approximately 123 percent between 2004–05 and 2024–25. By comparison, general education spending increased by almost 56 percent (Figure 8). By 2024–25, students with disabilities represented approximately 15 percent of California public school enrollment (Kaler et al., 2026) while spending on special education services accounted for 20 percent of districts' K–12 operating expenditures (Bruno, 2026). Research suggests that the increase in special education spending is driven by the interaction between higher identification rates and growth in higher cost services for students with more intensive needs (Bruno, 2026).

Figure 8. Inflation-Adjusted Changes in Student Spending per ADA on Educational Goals



Note. ADA = average daily attendance. LCFF = Local Control Funding Formula. This graph is adapted with permission from P. Bruno, 2026, *District Dollars 3: Recent Patterns in California School District Finances, Trends in Teacher Compensation, and Within-District, Between-School Spending*, p. 33 (gettingdowntofacts.com/reports/district-dollars-3-recent-patterns-california-school-district-finances-trends-teacher).

Benefits: Pensions and health care. Employee benefits are another category of district spending that has grown substantially over the past 2 decades, increasing 107 percent in inflation-adjusted dollars to $4,869 per ADA in 2024–25 (Koedel & Burgess, 2026). This growth reflects rising health care costs for current employees and increased spending on deferred compensation, including pensions and retiree health care. Pension costs rose in part because AB 1469 (2014) sought to address a large unfunded liability in the California State Teachers Retirement System (CalSTRS): the gap between the system's assets and the projected cost of pension benefits already earned by its members. The law gradually increased required contributions from school districts, the state, and employees. As districts devote a growing share of their budgets to employee benefits, fewer resources remain available for current salaries and other education priorities.

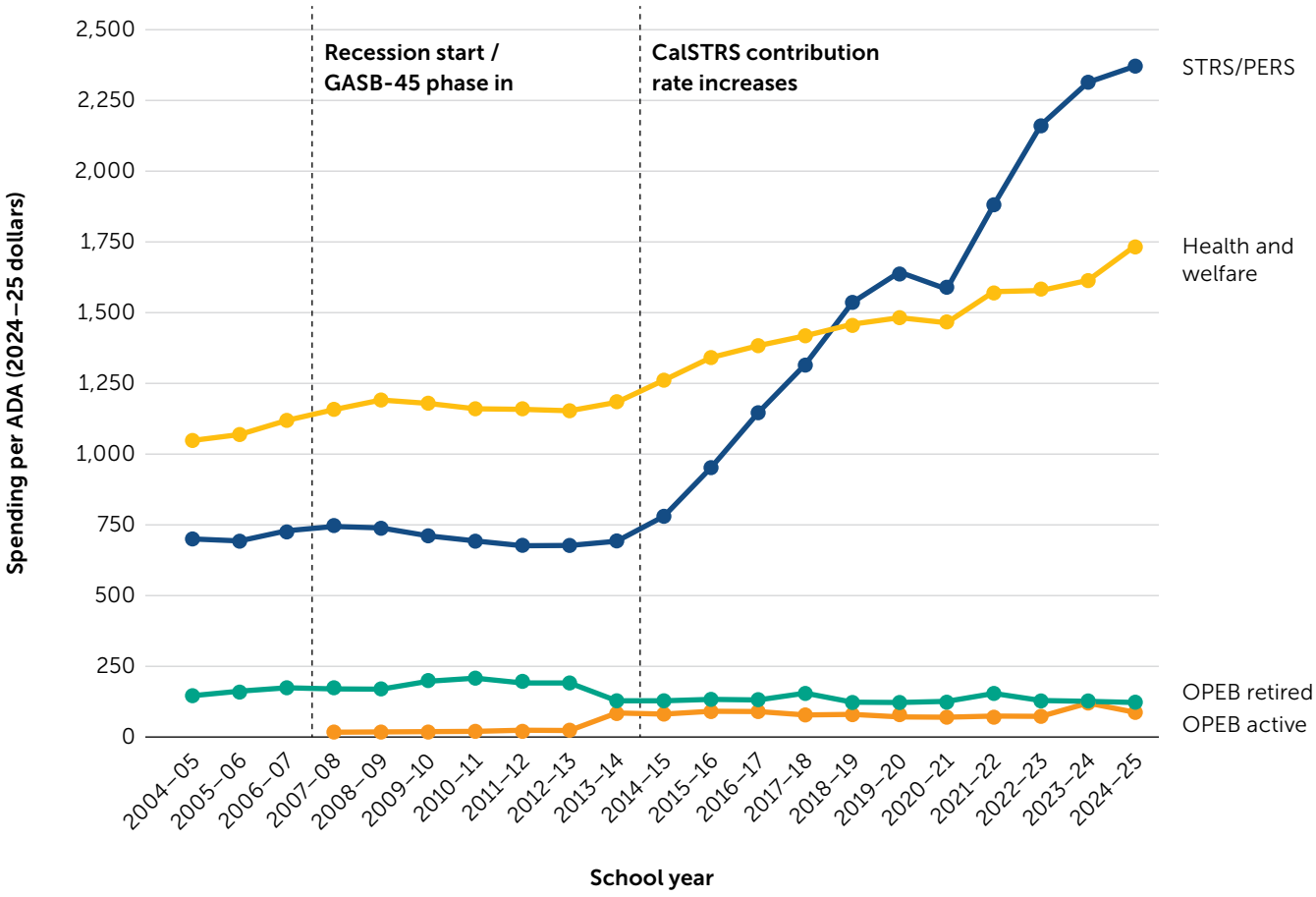
CalSTRS primarily covers certificated public school employees while the California Public Employees' Retirement System (CalPERS) generally covers classified school employees as well as other public employees. Both administer defined benefit pension plans, calculating retirement benefits using a formula based on service credit, an age or benefit factor, and final compensation. These formulas generally provide larger benefits to employees who accumulate more years of covered service and retire at or after the plan's normal retirement age. Employees who leave mid-career or take extended career breaks generally accumulate less service credit, although breaks do not erase previously earned credit. Because these plans promise formula-based benefits rather than limiting benefits to the balance in an individual account, inadequate contributions, investment returns below assumptions, or other adverse actuarial experiences can create unfunded liabilities. Paying those liabilities can require higher future contributions from public employers and the state (in the case of CalSTRS), placing pressure on future public budgets.

As a result of AB 1469, school districts are required to contribute to CalSTRS (and, separately, to CalPERS) at substantially higher rates to address previously underfunded pension obligations. Annual CalSTRS contributions have more than tripled since 2014–15, reaching $15.9 billion in 2024–25 (Koedel & Burgess, 2026). These higher contributions represent a fiscally responsible effort to address previously underfunded pension obligations. To date, districts have largely been able to absorb the increased costs because state education revenues have grown even faster. The elevated contribution rates are, under current law, projected to remain in place through 2044, after which future actuarial valuations and legislative decisions will determine contribution levels.

Spending on health benefits also rose 66 percent during the same period, driven by increases in the cost of health care (Bruno, 2026). Unlike CalSTRS pensions, health benefits for current and former employees are negotiated locally. Districts cannot control the rising cost of health care, but they do have some control over the nature of their health care benefits, which can have direct implications for district costs. California school districts pay an average of 85 percent of employee medical insurance premiums, compared with 75–84 percent paid by employers nationally, depending on the type of coverage (Bruno, 2019). But some districts agree to pay a much higher proportion of medical premiums. For example, as of August 2027, San Diego Unified School District's website advertises that it pays 100 percent of the medical, dental, and vision plans for eligible employees (monthly salaried positions of half time or more), spouses, and dependents (San Diego Unified School Districts, n.d.). When districts take on a high share of health care premiums, increases in medical costs have a larger fiscal impact on them than on many other employers. Benefit structures in which districts bear the full cost of premiums may leave them with fewer tools to manage that growth, including fewer financial incentives for employees to select plan options with a lower cost; they may also increase the number of people covered by the district if employees with spouses or dependents elect to have their entire family on the district plan.

Many districts also promise retiree health care benefits—an example of other post-employment benefits (OPEB)—to some employees. Because these benefits are negotiated locally, districts differ substantially in what they promise. For example, some continue contributing to retirees' health care costs throughout retirement, including after Medicare eligibility, while others provide more limited coverage or none at all. These decisions have long-term fiscal consequences. District spending on OPEB increased 43 percent (to $209 per ADA) from 2004–05 to 2024–25 (Figure 9).

Figure 9. District Spending per ADA on Benefits, ADA Weighted



Note. ADA = average daily attendance; STRS = State Teachers Retirement System; PERS = Public Employees' Retirement System; OPEB = other post-employment benefits. This graph is adapted with permission from P. Bruno, 2026, *District Dollars 3: Recent Patterns in California School District Finances, Trends in Teacher Compensation, and Within-District, Between-School Spending*, p. 41 (gettingdowntofacts.com/reports/district-dollars-3-recent-patterns-california-school-district-finances-trends-teacher).

Figure 9 tracks spending, so it does not include unfunded OPEB liabilities—namely, the costs districts will need to cover to meet the obligations for health care costs when their current teachers retire. Because retiree health benefits are locally negotiated and districts have considerable discretion over how they fund them, liabilities vary dramatically across districts. Seventy-five percent of districts report less than $2,489 per ADA of OPEB liabilities, and in fact, 46 percent report no OPEB liabilities at all (Bruno, 2026). Twenty-five percent of districts report OPEB liabilities exceeding $2,489 per ADA, and 11 of these report OPEB liabilities of more than $10,000 per ADA. The districts with the largest per-ADA OPEB liabilities include some of California's largest (e.g., Los Angeles Unified School District), so 10 percent of California students attend a district with at least $11,660 per ADA in OPEB liabilities. For districts with the highest liabilities, these obligations will place substantial burdens on future budgets.

Basic aid districts and small districts have unique features that are especially important in the current context.

Two types of districts—basic aid and small districts—have characteristics that are noteworthy because they matter for the district's protection against some broader structural forces, for their vulnerability to these forces, or for how the districts around them may experience the wider California education finance context.

Basic aid districts. About 15 percent of California's districts generate more local property tax revenue than the state calculates they need under LCFF. These basic aid districts still receive some state funding, but most of their general fund revenues come from local property taxes. While most districts lose revenue if they lose students, basic aid districts' revenue comes from local property taxes, which are unrelated to the number of students served. As a result, declining enrollment in these districts typically means increased per-pupil funding. In 2023–24, 50 districts had revenue that exceeded their LCFF calculation by $5,000 per pupil and had a student population where less than 55 percent of students were "unduplicated" (student characteristics that trigger increased revenue in the LCFF formula). Hahnel et al. (2025) refer to these 50 districts as "excess advantage" districts; they generated an average of $9,237 per pupil more than they would have received under the LCFF formula. In six coastal counties with high property values—Marin, Napa, San Diego, San Mateo, Santa Barbara, and Santa Clara—there is a concentration of excess advantage districts, which makes it hard for LCFF districts in those regions to compete on key system inputs like teacher salaries and staffing ratios (Table 2).

Table 2. Comparison of Teacher-Workforce Characteristics in Santa Barbara and Santa Clara Counties

	Average teacher salary (dollars)		Average student-to-teacher ratio	
	Excess advantage districts	LCFF-funded districts	Excess advantage districts	LCFF-funded districts
Santa Barbara	109,050	97,887	15:1	21:1
Santa Clara	145,023	109,969	19:1	22:1

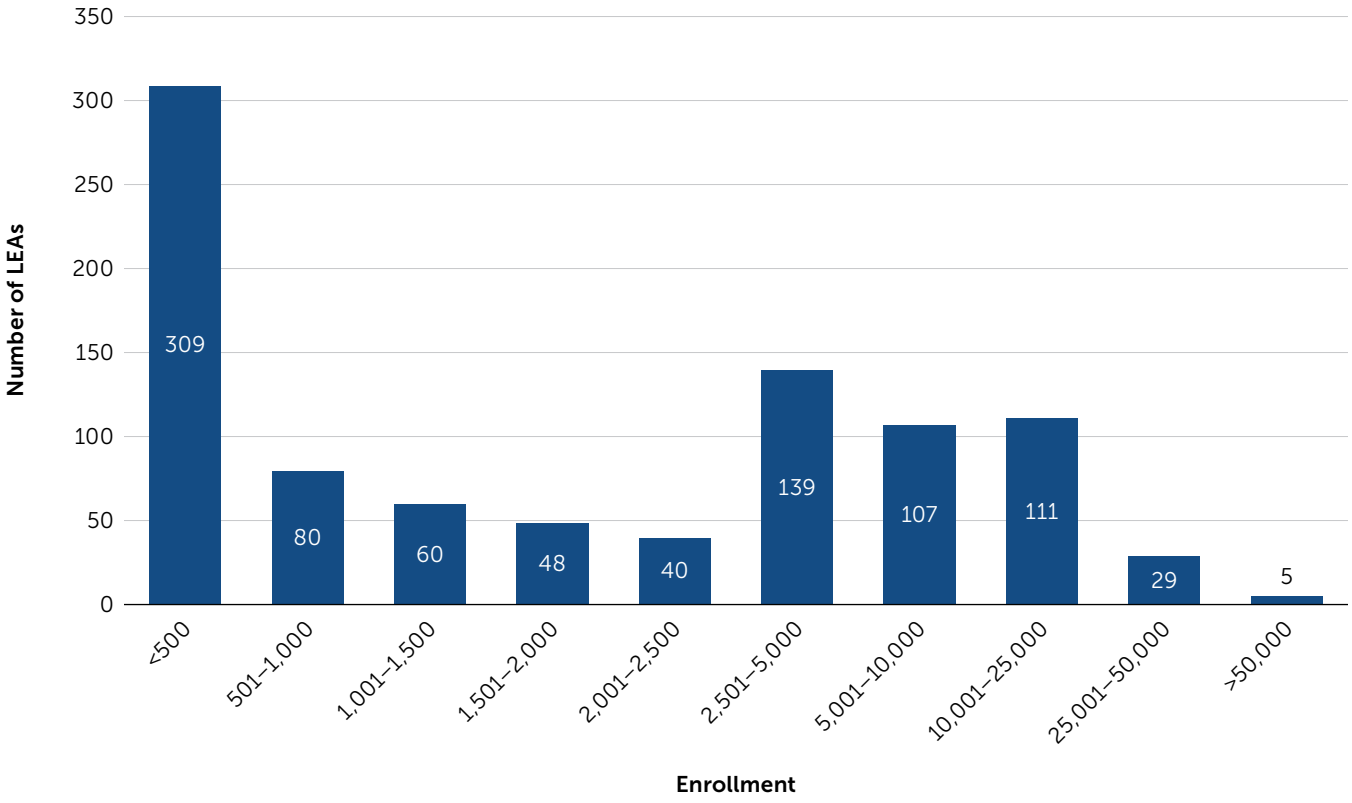
Source. Adapted from C. Hahnel, S. Zamarripa, and H. A. Gallagher, 2025, *Excess Revenue, Unequal Opportunity: Revisiting Basic Aid in the LCFF Era* (edpolicyinca.org/publications/excess-revenue-unequal-opportunity).

One superintendent of a basic aid district (who was asked about the staffing as part of Gallagher et al.'s 2026 Getting Down to Facts study) explained the advantage these districts have in the local labor market:

> *We're a more desirable district because we are basic aid and we pay salaries at the higher end of the whole county. So we don't have a huge difficulty with teacher retention as I know some of my neighboring districts do.*

Small schools and districts. California has a skewed distribution of enrollment across districts. Figure 10 shows the distribution of enrollment in the 928 elementary, unified, and high school districts across the state.

Figure 10. Number of Elementary, Unified, and High School Districts Classified by District Size



Note. These data exclude 60 local educational agencies (LEAs) of other types (e.g., County Office of Education LEAs that serve incarcerated youth, state special schools) that together serve 24,153 students and further skew the distribution of enrollment per LEA. Data from the California Department of Education's public schools and districts data files (cde.ca.gov/ds/si/ds/pubschls.asp) and Census Day enrollment data, 2025–26 (cde.ca.gov/ds/ad/filesenrcensus.asp).

Small districts (defined by the LAO as fewer than 2,500 students) have diseconomies of scale and capacity challenges, caused partially by the proportion of their funding that goes to costs not closely correlated with numbers of students (e.g., utilities, contracts for services, insurance, rent, and consulting fees); very small districts (fewer than 500 ADA) spend 25 percent of their budget on such costs, compared to a state average of 18 percent (LAO, 2026a).

These figures have implications for instructional quality. Gallagher et al. (2026) found that smaller districts were more likely than larger districts to face challenges on multiple dimensions of capacity, including attracting and retaining the teacher workforce they want, having teachers on special assignment to support ongoing professional learning, and having the capacity to undertake processes like curriculum adoption or rigorously digesting state curriculum frameworks. Additionally, Makori et al. (2026) found that "small enrollment bases leave little buffer for district financial stability," making these districts more vulnerable to the declining enrollment trends

described previously. The very smallest districts are also subject to wide swings in reported per-pupil expenditures, since the addition or loss of as few as two or three students can change the per-pupil spending amount dramatically from year to year. Even though these small districts serve a relatively low proportion of California students, their needs must be thoughtfully considered.

Conclusion

This report summarizes some findings from Getting Down to Facts III and presents additional analyses to illustrate California's substantial progress towards improving overall spending for TK–12 public education and to identify challenges that the state continues to face as it seeks to ensure an equitable and adequate level of funding for its schools. Specifically, we identify several issues for further consideration.

The state is spending more than before on schools and is now one of the leading states in per-pupil education expenditures. However, when compared to other states on a cost basis, California's effort is closer to the national average. If the economy faces a prolonged downturn though, revenues could decrease substantially because their source—personal income taxes—is more volatile than many other revenue sources (e.g., property or sales taxes).

Declining enrollment means that many districts may see their revenues decreasing. This pattern is particularly evident in coastal and rural areas. Enrollments in the Central Valley and Inland Empire continue to increase—rapidly, in some cases—leaving these districts with a different set of challenges around managing growth.

Teacher salaries remain stagnant on an inflation-adjusted basis, but the cost of living in California, and particularly the cost of housing in many California communities, has increased substantially. Districts' costs are also going up, some of them dramatically, including special education costs, pensions, and health care. These cost increases, in a time of funding uncertainties, make it challenging for many districts to invest in higher teacher salaries or make other resource-allocation decisions that could improve student outcomes.

Specific types of districts, notably basic aid and small districts, experience all of these trends in ways that differ notably from larger, LCFF-funded districts.

The current situation poses challenges to many districts in the short term and may have grave consequences in the longer term, especially if the economy dips. With many districts just beginning to face what has been called a fiscal cliff, it is time for policymakers to change the structure of education finance in California. To determine a good course of action, the following questions need to be addressed.

How much should California spend per pupil?

Headlines tout the level of per-pupil funding in California. Relative to other states though, California invests in schools at a rate just above the national average (on the "effort index" showing the proportion of gross domestic product allocated to education [Farrie & Kim, 2025]). Rather than merely comparing spending to other states on a series of metrics, California should first address the question of what we "should" spend on our schools. Several studies have used different methods to estimate what an "adequate" amount of per-pupil funding (i.e., the amount of funding necessary to ensure that all students have the opportunity to meet state goals) would be in California. The most recent study, conducted in 2018 as part of Getting Down to Facts II, estimated that adequate per-pupil funding in California would be $16,800 per student in 2016–17 dollars (Levin et al., 2018). Much has changed since then, including the expectations placed on schools and rapid increases in some costs that compete with spending on instruction and other student supports. The important question of what the adequate level of spending is for our schools should be reexamined as part of decisions regarding future funding levels.

How could funding become more predictable and focused on a limited set of sustained, long-term priorities?

Proposition 98's reliance on personal income tax creates unpredictability in the level of funding for education from year to year. This potential volatility creates a perverse incentive for the legislature to fund short-term categorical programs. Even when individual pieces of legislation contain good ideas, short-term, state-funded initiatives have created growing reporting requirements and challenges for districts' abilities to focus on the most important long-term priorities, as documented in a series of Getting Down to Facts studies (Gallagher et al., 2026; Willis & Loeb, 2026). Greater predictability would enable the state to be more disciplined about aligning available resources with a limited set of sustained priorities, rather than repeatedly creating new short-term initiatives when revenues increase.

Another impediment to districts' abilities to allocate sufficient funding for long-term priorities is the rising costs documented in this report. Special education costs are increasing more steeply than any other type. Special education also presents challenges that extend well beyond funding. Related issues—governance (e.g., the Special Education Local Plan Area [SELPA] structure), rising identification rates and misidentification of students (e.g., multilingual learners), and substantial achievement gaps between students with individualized education programs and other students—raise broader questions about whether current structures and approaches are effectively meeting students' needs. For that reason, special education finance should not be examined in isolation from the policies, governance structures, and practices that influence both costs and student outcomes. Multiple complementary approaches may be necessary to ensure that districts can consistently allocate funding in ways that most effectively improve student outcomes.

How could educator compensation be reexamined to benefit educators and protect districts' finances?

Challenges around teachers' salaries and their expenses (e.g., housing), along with the rising costs of benefits, suggest a need to examine educator compensation more comprehensively. The interwoven nature of some factors that are locally negotiated with others set by statewide policy and market forces reinforces the importance of evidence-informed policy if we hope to see improvements. Koedel & Burgess (2026) suggest approaches to retirement benefits from other states (e.g., giving current educators an option for a defined contribution plan, which some teachers prefer and which poses fewer fiscal challenges for districts, rather than only a defined-benefit retirement plan). These approaches to providing educator compensation packages that make teaching a desirable profession and are fiscally responsible warrant further examination within the California context.

Next Steps

The next step is to move from evidence about the problems to well-supported recommendations for how to address these issues and the tradeoffs of various approaches. While issues related to small and basic aid districts are pressing for some districts, developing robust policy solutions to the central structural issues that make most districts' finances precarious is a larger statewide priority.

PACE will convene a meeting of experts—from research, policy, and practice—to make recommendations for how policymakers can best address the three questions raised in this report. A report following the convening will transparently document the discussion as well as possible policy solutions arising from it and the broader research base.

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